



Report of the Vermont State Auditor

June 4, 2010

IMPROPER PAYMENTS

Results of Review of VISION Payments Made During 2007 and 2008

Thomas M. Salmon, CPA
Vermont State Auditor
Rpt. No. 10-03

Mission Statement

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**THOMAS M. SALMON, CPA
STATE AUDITOR**



**STATE OF VERMONT
OFFICE OF THE STATE AUDITOR**

June 4, 2010

The Honorable Shapleigh Smith
Speaker of the House of Representatives

The Honorable Peter D. Shumlin
President Pro Tempore of the Senate

The Honorable James Douglas
Governor

Mr. James Reardon
Commissioner, Department of Finance & Management

Dear Colleagues,

My office recently completed an audit searching for improper payments made from the VISION system. VISION is not the only state government system that generates payments, but it processed more than 1 million vouchers in 2007 and 2008, totaling approximately \$8 billion.

Improper payments made by State government, whether inadvertent or deliberate, reduce the funds available to execute its programs and policies. In these times the State cannot afford to expend precious resources unnecessarily. A commitment to strong internal controls can have significant benefits to the State, including safeguarding taxpayer dollars and increasing resources available to the State.

This report presents the results of our audit. We used data-mining software to review payments made through VISION during 2007 and 2008. Of approximately 580,000 payments made through the VISION accounts payable system, we applied data-analysis algorithms, each directed at specific voucher attributes, across the entire population of payments. The results of these analyses allowed us to narrow our sample to items identified as suspect improper payments. Focusing on these suspect items, we then applied professional judgment to arrive at our final sample. Our review was limited in scope, but we identified \$265,000 of improper payments made.

We intend to use the knowledge and experience gained in the performance of this review to examine other areas of State government.

I would like to thank the management and staff of the departments we audited for their cooperation, professionalism and commitment to improving their processes. If you would like to discuss any of the issues raised by this audit, I can be reached at (802) 828-2281 or at auditor@state.vt.us.

Sincerely,

Thomas M. Salmon CPA

Thomas M. Salmon, CPA
State Auditor

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Introduction

Improper payments made by government, whether inadvertent or deliberate, reduce the funds available to execute the government's programs and policies. Improper payments are a widespread and significant problem receiving increased attention in today's economic climate and may cause increased demands on State government resources. Improper payments may include inadvertent errors, such as duplicate payments and miscalculations; payments for unsupported or inadequately supported purchases; payments for services not rendered; payments to ineligible beneficiaries; and payments resulting from outright fraud and abuse by program participants, state employees, contractors or suppliers.

In the public sector, improper payments can translate into serving fewer citizens, wasteful spending or increase the burden on taxpayers. The risk of improper payments increases in programs with weak internal controls, a high volume of transactions, an emphasis on expediting payments, or complex criteria for computing payments. Vermont State programs collectively disburse billions of dollars, and there is clearly a need for State government to be vigilant in the design, implementation and maintenance of strong internal controls to adequately prevent improper payments.

The objective of this audit was to use data-mining techniques to identify potential improper payments made from VISION, the State's primary accounting system, from January 1, 2007, to December 31, 2008.

While there are many types of improper payments, we focused on payments that were made more than once for the same service, product or grant, namely duplicate payments. We also ran algorithms matching details such as address or bank account number between the payments and employee databases. Our audit was not designed to find other types of improper payments.

Our scope included payments based on vouchers originally entered in feeder systems (such as STARS, the Agency of Transportation's accounting system), but it excluded payments not processed through VISION's Accounts Payable module, such as those for salaries and wages, unemployment compensation, tax refunds, and some of the programs of the Agency of Human Services.

This report, *Improper Payments: Results of Review of VISION Payments Made During 2007 and 2008*, addresses identified improper payments. A second report published by the State Auditor's Office and available on its website, *Improper Payments: Internal Control Weaknesses Expose the State to Improper Payments*, addresses processes and internal controls related to accounts payable.

Appendix I gives details of the scope and methodology of this review.
Appendix II is a glossary of terms used in the report.

Highlights: Report of the Vermont State Auditor

Improper Payments: Results of Review of VISION Payments made during 2007 and 2008

June 2010, Rpt. No. 10-03)

Why We Did This Audit

The State of Vermont is accountable to its stakeholders for how its agencies and departments spend billions of taxpayer dollars and is responsible for safeguarding those funds against improper payments as well as for recouping those funds when improper payments occur.

Our objective in this audit was to use data-mining techniques to identify potential improper payments from VISION made by the state from January 1, 2007, to December 31, 2008.

What We Recommend

We recommend that the Commissioner of Finance and Management direct departments to collect any unrecovered improper payments identified.

We also recommend that the Commissioner of Finance and Management consider using VISION queries to make algorithms such as those that we ran available to departments, so that they may occasionally conduct their own reviews like this one.

Findings

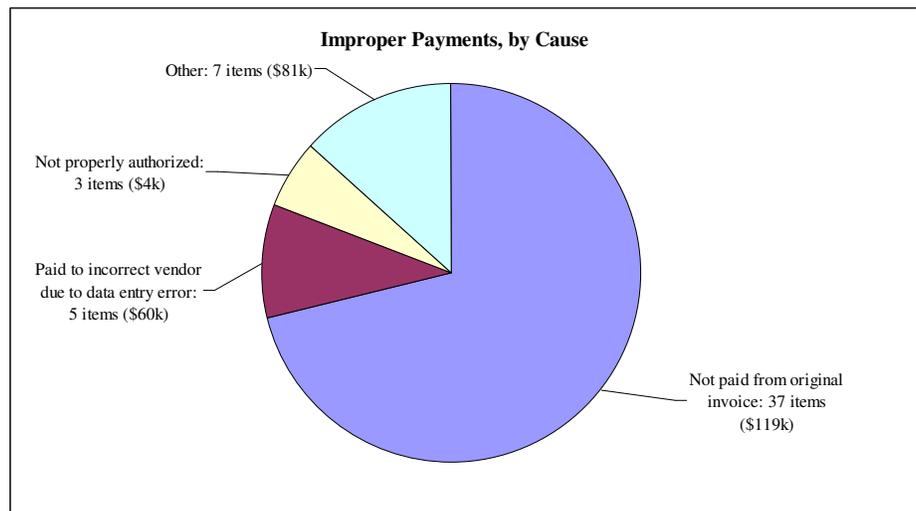
We found duplicate payments made by 11 of the 75 state departments during calendar years 2007 and 2008.

Of about 580,000 payments totaling approximately \$8 billion made through the VISION accounts payable system, we applied various data-analysis filters and professional judgment to select 271 transactions totaling about \$2.7 million for detailed testing. Of this, we identified about \$263,000 (52 vouchers) as duplicate payments to vendors. At the time of review, about \$61,000 of this remained outstanding, while about \$202,000 had been repaid to the State.

There were various scenarios that gave rise to these duplicate payments, including the following, with their number and value shown in Chart 1.

An example of an improper payment was a delivery of \$3,136 in fuel that was paid twice because it was paid on the basis of the delivery ticket and a subsequently submitted invoice.

Chart 1: Summary by cause of improper payments (rounded to the nearest thousand dollars)



Our analysis was limited to the identification only of certain types of potential improper payments and would not have identified other types, such as payments made for goods and services not delivered.

Background

The State government of Vermont consists of 6 agencies and over 75 departments¹ and business units located across the State, employing approximately 8,000 employees.

The State's organizational structure is primarily decentralized. The departments are responsible for maintaining adequate internal controls for their accounts payable processes. To assist departments with their responsibility to maintain internal controls, the Department of Finance & Management (F&M) has provided the departments with guidance such as Internal Control Standards, Best Practices and the VISION accounts payable manual.² It is the clear expectation of F&M that absent a valid business reason, departments will strive to integrate this guidance.³

The State uses an Oracle/PeopleSoft® enterprise financial management system, called VISION, to manage its general ledger, accounts payable, purchasing, accounts receivable, billing, asset management, inventory, and subrecipient grant tracking. The system is managed by the Department of Finance and Management in conjunction with the Department of Information & Innovation's PeopleSoft Technical Unit. VISION data are stored in a relational database with a complex table structure.

Vouchers for payment of invoices are entered by VISION users at the departments. Many departments have staff members dedicated to entering and processing vouchers. Some departments have multiple accounts payable units that process vouchers, while others have only a single VISION user.

VISION has some embedded application controls over voucher processing, including:

- Duplicate voucher checking controls that check for existing vouchers with matching invoice number, date, gross amount, vendor ID and vendor type.
- A vendor master list, which almost all departments making VISION Payments must use.

¹ The term "department" is used generically throughout this report and refers to agencies, departments or other business units of the State.

² *Other VISION Documentation: Warrant Process for Accounts Payable* (Department of Finance and Management, November 2007, AP-01)

³ *Best Practice Series: Best Practices Overview* (Department of Finance & Management).

-
- On-line system approval process of all invoices.

In addition to the system controls in VISION, each department is responsible for developing and implementing business process controls and applying the Best Practices set by the Department of Finance and Management.

During 2007 and 2008, VISION users processed more than 1 million vouchers and the State made more than 580,000 payments to vendors.

- Across the State more than 340 employees processed vouchers in VISION and 226 of these employees processed more than 100 vouchers individually.
- 924,000 or 90 percent of vouchers processed, totaling over \$300 million, were less than \$3,500, whereas 98,000 or 10 percent of vouchers processed were more than \$3,500.
- 80,000 or 8 percent of vouchers processed were for five vendors.
- 79,000 vouchers were transactions between one department of State government and another.
- 33,000 or 3 percent of vouchers totaling \$98 million were processed and not paid, or the payment was voided or cancelled prior to payment.

Some departments use different accounting systems. For example, the Agency of Transportation uses a system called STARS and the Department of Labor uses a system called FARS. Transactions entered into these feeder systems are interfaced electronically into VISION, whence payments are made.

Improper Payments

Our data-mining algorithms that were designed to identify multiple payments for the same service or product identified 52 improper payments, totaling \$263,391, at 11 departments. These were all duplicate payments.

We also ran a small number of other algorithms to look for anomalies related to, for example, payments to VISION users entered by the payee, but no additional improper payments were identified.

Our analyses were designed to identify very specific types of improper payments and cannot be used to draw conclusions beyond the specific boundaries of each of the algorithms, which are explained in Appendix I.

Duplicate Payments Were Identified at Many Departments

Of approximately 580,000 payments totaling \$8 billion made through the VISION accounts payable system, we applied various data-analysis filters to target 271 transactions over \$500⁴ totaling about \$2.7 million for detailed testing. Of this, we identified about \$263,000 (52 vouchers) as duplicate payments to vendors:

- 34 payments totaling \$202,093 made to vendors, subsequently recovered by the State.
- 18 payments totaling \$61,298 improperly made to vendors, of which the department was not aware prior to our audit, or not recovered by the State before the time of our audit.

We informed the departments of the improper payments that we found, in order to give them the opportunity to recover any monies outstanding.

We noted that the two departments where we identified the greatest numbers of duplicate payments both enter vouchers into feeder systems. This is addressed in detail in our report *Improper Payments: Internal Control Weaknesses Expose the State to Improper Payments*.

Table 1 below shows the departments where we found improper payments, and the number and value that we found. It also shows the number and value of improper payments recovered and remaining outstanding.

⁴ For the 'near amount' algorithm some were rounded up from ~\$450 to \$500

Table 1: Analysis by Agency/Department (showing only those departments where we found improper payments).

Agency/Department	Total		Recovered Before Audit		Outstanding at Audit Date	
	Number	\$ Value	Number	\$ Value	Number	\$ Value
Transportation	29	114,116	16	59,967	13	54,149
Labor	4	16,317	3	15,817	1	500
Enhanced 911 Board	4	11,629	3	8,665	1	2,964
Agency of Natural Resources	3	59,922	1	56,794	2	3,128
Public Safety	3	5,229	3	5,229		
Corrections	3	4,072	3	4,072		
Children & Family Services	2	8,163	2	8,163		
Education	1	42,000	1	42,000		
Human Services Central Office	1	800	1	800		
Buildings & Gen Services	1	584	1	584		
Health	1	558			1	558
Total *	52	\$263,391	34	\$202,093	18	\$61,298

* Totals may not add due to rounding differences.

Some of the improper payments identified had been recovered before our audit. Of the payments noted as outstanding at the time of our audit, some have subsequently been recovered.

The duplicate payments that we found can be divided into four broad causes, as shown in Table 2 below.

Table 2: Analysis by Cause of Improper Payment

Cause of Improperly Processed Payments	# of Improper Vouchers Processed	% of Improper Vouchers Processed	Voucher \$ Value
Not paid from original invoice	37	71%	\$118,736
Paid to incorrect vendor as a result of data entry error	5	10%	\$59,656
Not properly authorized	3	6%	\$3,928
Other	7	13%	\$81,071
Total *	52	100%	\$263,391

* Totals may not add due to rounding differences.

Note that the particular situations that caused the duplicate payments that we found would not always have that result (for example, using a delivery ticket to authorize a payment rather than an invoice will not necessarily cause a duplicate payment). We were able to detect these particular improper payments only because they resulted in multiple payments made for the same service, product or grant, as happened in this example:

A delivery of fuel oil was received, and the delivery ticket showing \$3,136 worth of goods delivered was processed as a voucher and paid.

The vendor subsequently submitted an invoice, which was also processed as a voucher and paid. In this case, the invoice number and other details matched those of the delivery ticket, but because the later invoice (but not the original delivery ticket) was entered with a PY prefixed to its invoice number (to denote an invoice from the prior financial year), the duplicate controls failed to detect the second payment as a duplicate.

Our 'Invoice Format' algorithm detected that these two vouchers had the same invoice date, vendor ID and dollar amount, with invoice numbers differing only by the addition of 'PY', and on inspection of the supporting documents we noted that they referred to the same transaction.

Further examples of improper payments that we found are given in Appendix III.

VISION currently provides no means for either the departments or the Department of Finance and Management to detect transactions that were not stopped by VISION's duplicate voucher prevention control. We have been informed by the Department of Information & Innovation (DII) that it would be possible to make analyses similar to those that we used for this review available as VISION queries.

Other Algorithms

Our data-mining analysis also included algorithms that (1) compared vendor information in VISION to employee information in the State's Human Resources system, (2) compared VISION user names to vendor names, and (3) looked for vouchers that significantly exceeded the average voucher for a vendor. Our analysis of the results of these algorithms did not find any payments that were made improperly.

Conclusions

Our review was designed to detect certain types of improper payments, primarily duplicate payments. Of the \$2.7 million in payments over \$500 that we focused on, about \$263,000 were paid twice; some had subsequently been recovered, but not all. While \$263,000 is a modest amount, any duplicate payment made is a cost to the State, whether directly or in terms of the effort required to recover it, and the duplicate payments that we found demonstrate that VISION's preventive controls are not foolproof. These controls are discussed further in our report *Improper Payments: Internal Control Weaknesses Expose the State to Improper Payments*.

Reviews of this nature point out the real consequences of control deficiencies and enable the State to recover monies that might otherwise be lost. There would therefore be merit in such reviews being performed again from time to time.

Recommendations

We recommend that the Commissioner of Finance and Management:

1. Direct departments to collect any unrecovered improper payments identified.
2. Consider using VISION queries to make algorithms such as those that we ran available to departments, so that they may occasionally conduct their own reviews like this one.

Management's Response and Our Evaluation

On May 10, 2010, the Commissioner of Finance & Management provided a written response to this report on behalf of the Agency of Administration, which can be read in its entirety in Appendix III of this report. The Commissioner indicated that the Department of Finance and Management did not disagree with the findings and recommendations related to the review. In his response, the Commissioner cited a 4-step corrective action plan.

As a part of his response, the Commissioner misinterpreted information presented in the draft provided to him to incorrectly calculate that the State's overall duplicate payment error rate was one instance per 20,000 vouchers, basing the calculation on 1 million vouchers as well as the \$8 billion that was processed over the two-year period of 2007 and 2008. We understand how this misinterpretation occurred, and accordingly, have added additional clarifying information to the scope and methodology section of our report in Appendix I. As stated in the Appendix I, this was not a representative sample, therefore we believe it is not statistically appropriate to extrapolate from these results.

Additionally, in his response the Commissioner stated that our data-mining methods did not detect any potentially fraudulent activity of payments. Again, as indicated in Appendix I, our analyses and the resulting sample we selected were designed to only identify very specific types of improper payments. We do not make any assurances that fraudulent activity does not exist outside our audit objectives.

The Commissioner provided an update as to the status of the unrecovered duplicate payments we identified. We are pleased that 15 of the 18 outstanding duplicate payments have been recovered and that the department is pursuing recovery of the remaining three items.

The Commissioner did not address our recommendation that the VISION system produce standard query reports designed to emulate our analyses. We believe this would assist departments in detecting potential duplicate payments that may not have been caught by system duplicate voucher prevention controls. Our review found instances where VISION's duplicative controls were circumvented. Query reports would assist departments in identifying these transactions for further investigation.

Appendix I

Scope & Methodology

The scope of this review was the examination of accounts payable payments made from VISION in the period January 1, 2007, to December 31, 2008, using data-mining technology to identify potential improper payments for detailed examination.

Our scope included payments based on vouchers originally entered in feeder systems (such as the Agency of Transportation's STARS system), but it excluded payments not processed through VISION's Accounts Payable module, such as those for salaries and wages, unemployment compensation, tax refunds, and many of the programs of the Agency of Human Services.

We held extensive discussions and interviews with staff from both the Department of Finance & Management and the Department of Information & Innovation in the course of obtaining the data we needed and obtaining an understanding of VISION's operation and controls. We met with the Director of Statewide Accounting and VISION Maintenance Coordinator to discuss the vendor set up and maintenance processes. We met with several VISION system developers to gain a better understanding of VISION tables and fields.

We discussed with staff at the various departments their processes and existing internal controls around vouchers and payment processing.

For this review we used IDEA software, a data extraction and analysis (data-mining) tool.

We obtained extracts from VISION of vendor records, vouchers and payments. We assessed the reliability of VISION data by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. In addition, we traced a sample of data to source documents. We determined that the data were sufficiently reliable for the purposes of this report.

We filtered the VISION records to identify vouchers for further investigation. Of the algorithms that we used, the first six were duplicate-matching algorithms, the seventh an analytical algorithm, and the remainder were matches between different data sets:

1. **All Match:** Vouchers where invoice number and date, vendor ID and dollar amount all match.
2. **Invoice Format:** Vouchers where invoice date, vendor ID and dollar amount all match, and the invoice number has only formatting differences.
3. **Near Date:** Vouchers where invoice number, vendor ID and dollar amount all match, and date differs but within the same month.

Appendix I

Scope & Methodology

4. **Near Amount:** Vouchers where invoice number and date and vendor ID all match, and dollar amount differs, but dollar amount rounded to the nearest \$100 matches.
5. **All Match except dollars:** Vouchers where invoice number and date and vendor ID all match but dollar amount differs.
6. **All Match except Vendor ID:** Vouchers where invoice number and date and dollar amount all match and vendor ID differs only slightly.
7. **Outliers:** Identify vendor vouchers for much more than the average voucher from the same vendor.
8. **Matching Vendor and Employee Addresses:** Vendor address for a payment made matched one in the employee file of the State's Human Resource system.
9. **Matching Vendor and Employee Bank Accounts:** Bank account number for a payment made matched an account in the employee file of the State's Human Resource system.
10. **User IDs:** Using the VISION users table to match between user IDs in the 'Voucher created by' and 'Voucher last updated by' fields and vendor names ('last updated by' is in many, but not all, cases the user who approved the voucher).

Six of our analyses were designed to detect duplicate payments. Table 3 below shows the differences between these.

Table 3: Summary of Audit Duplicate-Detection Analyses

	Invoice No.	Date	\$ Amount	Vendor ID
All Match	Match	Match	Match	Match
Invoice Format	Slightly Different	Match	Match	Match
Near Date	Match	Slightly Different	Match	Match
Near Amount	Match	Match	Slightly Different	Match
All Match Except \$ Amount	Match	Match	Different	Match
All Match Except Vendor ID	Match	Match	Match	Slightly Different

Appendix I

Scope & Methodology

Of approximately 580,000 payments totaling \$8 billion made through the VISION accounts payable system, we applied the above mentioned data-analysis algorithms, each directed at specific voucher attributes, across the entire population of payments. The results of these analyses allowed us to narrow our sample to items identified as suspect improper payments. Focusing on these suspect items, we then applied professional judgment to arrive at our final sample.

We selected a sample of 271 vouchers, totaling \$2.7 million, issued by vendors that were not part of State government, and examined the supporting documentation. We selected a sample of vouchers over \$500 (for the “near amount” algorithm some were rounded up from ~\$450 to \$500) at the 25 departments listed below. For each of these 271 vouchers we obtained supporting documentation and interviewed relevant staff, as needed, to assess whether the payment was made correctly.

List of the departments visited for review of procedures and supporting documentation for selected vouchers

Agency of Agriculture
Agency of Commerce & Community Development
Agency of Human Services Central Office
Agency of Transportation
Attorney General’s Office
Center for Crime Victim Services
Department for Children & Families
Department of Buildings & General Services
Department of Corrections
Department of Disabilities, Aging & Independent Living
Department of Education
Department of Environmental Conservation
Department of Fish and Wildlife
Department of Forests, Parks and Recreation
Department of Human Resources
Department of Labor
Department of Liquor Control
Department of Public Safety
Department of Taxes
Enhanced 911 Board
Military Property & Installations Office
Natural Resources Board
Office for Vermont Health Access
Office of the State Treasurer
Vermont Department of Health

Appendix I

Scope & Methodology

This was not a representative sample and the findings based on it cannot be extrapolated.

This review searched for improper payments displaying certain sets of characteristics. There are many other kinds of improper payment that this analysis was not designed to detect. Examples include:

- If an invoice was entered into VISION and paid in an incorrect amount.
- If a vendor invoiced the State for goods or services not delivered, or charged at an incorrect price.
- If a vendor billed the state twice for the same goods and services using different invoice details.
- Payments based on inappropriate purchasing decisions.

Because the scope of this review was limited to our algorithms, there may be other improper payments in addition to those we identified.

We conducted this performance audit in accordance with generally accepted government auditing standards except for the standard that requires that our system of quality control for performance audits undergo a peer review every three years.¹ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹ Because of fiscal considerations, we have opted to postpone the peer review of our performance audits until 2011.

Appendix II

Glossary

Department	An agency, department, board or commission of the state government
Duplicate Payment	For the purposes of this report, a duplicate payment is a payment made for goods, services, grants, etc., that had already been paid for. Where two payments were made for the same purchase, and were made to different vendors because of a data entry error, we regard this as a duplicate payment.
Feeder System	A system that provides information or data to support the main application. For example, in a payroll system the time and attendance system may be a feeder system for the main application (per the Government Accountability Office's Federal Information System Controls Audit Manual).
Improper Payment	For the purposes of this report we have used the definition of the (federal) Improper Payments Information Act: an improper payment is "any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts." Payments that were made as they should have been but were processed or accounted for contrary to state procedures are excluded from this definition and are not discussed in this report.
VISION	The State's primary accounting system, used by most departments and agencies. VISION is an Oracle/PeopleSoft® enterprise financial management system.

Appendix II

Glossary

Voucher	The VISION accounting document that serves as the basis for cutting checks or generating payments and recording financial transactions to pay a vendor, per Finance & Management’s VISION Glossary. A voucher is commonly an invoice, but could be a judgment, an expense claim, a grant notification, or many other possibilities. A payment may be based on one or a combination of several vouchers from the same vendor.
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Examples of Improper Payments Found in this Audit

Paid to incorrect vendor as a result of data entry error

A department entered an invoice for \$9,000 into its feeder system. An error was made in entering the vendor ID (an eight-digit number). Since this feeder system does not have a vendor master file, no vendor name appears on the screen, making it less likely that an operator would notice this error.

The invoice was transmitted to VISION and paid to the wrong vendor.

The correct vendor subsequently asked why it had not been paid. There was no record of the correct vendor having already been paid, so a copy of the invoice was entered and paid. Since the invoice was entered the second time with a different vendor ID, no duplicate prevention control was triggered.

Since these payments were both for the same transaction, we regard them as duplicates, although they were made to different recipients.

Not properly authorized

An invoice marked "Corrected" for \$2,472 was authorized, entered into VISION, and paid.

An earlier version of this invoice, with handwritten amendments, was subsequently entered into VISION and paid, with the amendments making the total value the same as the corrected version. This copy of the invoice had no sign of authorization on it, contrary to the department's normal practice.

The corrected invoice had the same invoice number but a different date, and therefore did not trigger the duplicate prevention control in VISION.

Other

An invoice for \$1,536 was received, processed, and paid.

An identical copy of the same invoice, complete with identical backing documentation, was subsequently received. The individual authorizing the invoice did not notice that it was a duplicate, and it was therefore authorized and entered again into VISION. An error was made in entering the invoice number (an additional space was inserted), and the duplicate control was therefore not triggered.

Department of Finance & Management Response



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Jim Reardon, Commissioner



May 10, 2010

Thomas Salmon, State Auditor
132 State Street
Montpelier, VT 05633

Dear Auditor Salmon:

The Department of Finance and Management would like to thank your office for the opportunity to respond to the draft findings and recommendations relating to your Improper Payment Review.

We agree fully that improper payments i.e. duplicate payments, reduce the funds available for the State of Vermont to execute its programs and policies. We further agree that the best way to prevent duplicate payments is to develop an environment where strong internal controls exist, best practices are followed, and documented polices and procedures are understood and followed.

While there can be no tolerance for any type of improper payment, duplicate payments are an inescapable fact of business. The Institute of Internal Auditors have found that duplicate payments make up between 0.5% and 0.1% of annual invoices processed. In other words, approximately 1 in a 1,000 payments are likely to be duplicates. The Department of Finance and Management is very pleased with the results of your extensive data mining. Of the more than 1,000,000 vouchers totaling \$8 billion that we processed in a 2 year period, your data mining identified 52 duplicate payments (or 1 in 20,000 vouchers) of which 34 had been recovered prior to your audit. At the time of this response, 15 of the remaining 18 duplicate payments have been recovered and 3 are still in the process of being recovered.

We are very pleased that our error rate for duplicate payments was significantly less than the national average, suggesting that our staff, systems and processes are reasonably effective in preventing and detecting duplicate payments. More importantly, your data mining methods, which included matching vendor information with employee databases, did not detect any potentially fraudulent activity or payments.

As effective as our internal controls are, we do recognize they alone do not guarantee success. Our internal controls have been designed to provide the Department of Finance and Management with reasonable assurance, not absolute assurance. Even the best designed internal controls can breakdown due to human error. Staff may misunderstand instructions, make errors in judgment or commit errors due to carelessness, distraction, or fatigue.

Department of Finance & Management Response

Thomas Salmon, State Auditor
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Our corrective action plan is as follows:

1. The Department of Finance and Management understands that strong internal controls and compliance is achieved through a continuous process of improvement. In the coming year we will continue to evaluate ways to assure departments strengthen and document their internal controls and adhere to our published best practices.
2. The Department of Finance and Management will evaluate the possibility of modifying the current VISION user access control to restrict the same individuals from both entering and approving vouchers.
3. The Department of Finance will document and strengthen policies and procedures for approving, maintaining and monitoring vendors.
4. The Department of Finance and Management will review the current VISION duplicate voucher controls in an effort to strengthen its detection capabilities and minimize unauthorized circumvention.

Once again, thank you for the opportunity to respond to this draft.

Sincerely,



James Reardon
Commissioner

